Appendix 3: Fiscal Impact Analysis

Prepared by Connery & Associates

July 29, 2009

Lexington Technology Park
Lexington Massachusetts

A Fiscal Analysis Relative to an Amendment to the Preliminary Site Development Use Plan

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Prepared by
Connery Associates
Melrose, Massachusetts

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1.0 Overview.

Lexington Technology Park (LTP), located at 125 Spring Street, 500 Patriot Way (formerly 131 Spring Street) and 300 Patriot Way (formerly141 Spring Street), Lexington Massachusetts has applied to the Lexington Planning Board to amend the preliminary Site Development Use Plan (PSDUP) originally approved by the May 2004 Town Meeting to permit an additional 380,000 square feet of research / office space and a 510,000 square feet of parking garages designed to accommodate 789 vehicles. The existing Lexington Technology Park is an established commercial enterprise comprised of a number of successful businesses. The proposed expansion is designed to be consistent with the characteristics of the existing facilities in terms of operation and business types.

This analysis will estimate the annual net fiscal loss or gain (fiscal profile) associated with LTP proposal by illustrating the estimated net fiscal outcome of the LTP proposal. In general terms, this analysis compares the estimated annual gross municipal revenue to the estimated annual municipal service cost associated with the proposal. The estimated fiscal profile will be expressed in terms of a municipal cost to revenue ratio and also as an annual net dollars loss or gain. As will be presented in detail in the following sections the LTP proposal will generate a very strong fiscal outcome for Lexington at project stabilization.

For the purposes of this analysis we have used the current tax rate for commercial properties in Lexington and Fiscal Year 2010 operating budget data as approved by the most recent Town Meeting. In most instances, large numbers have been rounded for ease of reading.

2.0 Summary of Methodology

The methodology summarized below is the same as was employed in my 2008 analysis of LTP and discussed at the public hearings, it has been updated to reflect the FY10 municipal budget and commercial tax rate. As noted previously, municipal service cost associated with commercial use is almost always significantly lower than municipal

service costs associated with residential uses since there are no education costs, which usually represent 55% to 65% of municipal operating budgets in Massachusetts. Further, many traditional maintenance oriented services such as road maintenance, lighting, trash collection, and snow plowing are privately provided by self contained endeavors like the Lexington Technology Park (LTP). Accordingly, traditional Department of Public Works costs associated with the new development are minimal or non-existent. Further, as in many communities, Lexington the annual municipal service costs related to water and sewer services are addressed via enterprise accounts which essentially create a pay as you use system and do not impact the property tax resources. Finally, short term project review and management costs associated with the Building Department or Planning Department are addressed as either permit fees or peer review fees paid to the Town of Lexington and as such do not figure in the analysis of on-going project service costs.

Relative to the LTP proposal, we find that the primary source of additional municipal service cost relates to public safety services (police and fire). To estimate the potential increase in public safety costs this report examined the current public safety service cost associated with commercial use in Lexington and assigned a pro-rata share to the proposed new building (see Appendix 1).

The revenue estimate component of this analysis was constructed by estimating the assessed value of the proposal at project stabilization. It should be noted that will the various components of the proposal are under construction the Town will assess the property based on improvements made to the appropriate future date.. The exact "interim" tax assessment is difficult to estimate since it will be a function of project schedule and annual tax updates. However, it is possible to state that any interim assessment before project stabilization (construction completion and occupancy) will be less than the estimated taxable value at project stabilization. The estimated stabilized assessed value used in this report was based on three factors; the current value of properties at the existing LTP, the nature of the proposed expansion, and general discussions with the Town's commercial property assessor Mr. Robert Lent.

The comparison of the estimated annual service costs to the estimated gross property taxes at project stabilization generates the estimated net fiscal profile of the proposal. The estimated net fiscal profile is expressed in terms of current dollars and as a ratio of cost to revenue. It is my position that the cost to revenue ratio is the more important number for the Town's consideration since over time cost and revenues will fluctuate (usually by relatively small amounts) but if a cost to revenue ratio is strongly positive the proposal can be said to exhibit positive and sustainable fiscal characteristics and therefore represent a long term fiscal benefit for the community. It should also be noted that the proposed expansion is not associated with any previous Tax Increment Financing agreement with the Town of Lexington.

3.0 Summary of Findings

The following summary of findings relates to the proposed additions to the Lexington Technology Park (LTP) as summarized in Section 1.0.

- **The LTP proposal will generate approximately $2,555,000 in gross annual property taxes.**

- **The LTP proposal will generate an annual *net* fiscal benefit of approximately $2,218,000 and has a cost to revenue ratio of 0.13 at project stabilization. Accordingly, 87 cents of every revenue dollar generated will accrue as a net fiscal benefit.**

- **The LTP proposal will generate approximately $1,500,000 in construction related permit fees during the period of construction.**

- **The LTP proposal will expand Lexington's total assessed valuation by approximately $100,000,000 million dollars at project stabilization (current dollars).**

- **The LTP proposal will provide a strong positive net fiscal benefit that will be sustainable for the long term.**

- **The LTP proposal is likely to provide an opportunity for new local employment opportunities for Lexington residents.**

4.0Municipal Service Cost

Table 1 below illustrates the estimated impact of the LTP proposal on Lexington's Police and Fire Departments, the source of the anticipated increase in municipal service cost. There are a number of methods an analyst can use to estimate the fiscal cost of commercial development. For the LTP we have selected a departmental specific approach since most departments will not incur measurable long term annual cost in this instance. Accordingly, we have applied the departmental cost per land use type methodology as derived from the Fiscal Impact Handbook by Burchell and Listokin, this methodology is the same methodology that was applied in the 2008 fiscal analysis of the LTP proposal. This approach assigns estimated service cost to municipal operating budgets by department, and in this case the identified and departments are police and fire services (see Appendix 1 for further details).

To employ the above noted estimating technique it is necessary to know the current amount of commercial property in the community and the percent of expansion represented by the proposal. It is my estimate that in 2009 the Town of Lexington

currently has approximately 4 million square feet of commercial and industrial space[1]. Accordingly, the proposed expansion of 380,000 sq ft. represents a 9.5% expansion However, it should be known that if other approved commercial developments come on line and are stabilized within a three to five year period the LTP proposal will represent an expansion of approximately 8%.

Table 1 below illustrates the current police and fire services budgets and using the technique noted above Table 1 estimates the service cost assigned to commercial uses in Lexington.

Table 1 Estimated Service Costs for Police and Fire Services

Department	FY10 Budget	% currently assigned for commercial use at 35%
Police	$ 5,269,000	$1,844,000
Fire	$ 4,871,000	$1,705,000
Totals	$10,140,000	**$3,549,000**

As indicated in Table 1 above, as much as 35% of Lexington's public safety budget ($3,539,000) is associated with current commercial uses and the associated traffic management impacts. As indicated in Appendix 1, commercial use can generate a significantly higher service cost percentage than 35% relative to public safety budgets. However, it is important to note that the high end of the cost range as associated with regional retail shopping centers which generate a large and sustained demand on local police forces. Conversely, office and research parks are at the lower end of the scale due to the essentially self contained nature of the use and the significantly less traffic generated on a square foot of development basis. Further, the proposal is designed within the existing Lexington Technology Park accordingly it will not generate a new geographical service area that could result in a shift public safety service districts. Therefore, I believe it is appropriate to use the lower end of the scale for an extension of an existing and well established research facility.

LTP will add 380,000 square feet of floor space to the total commercial area of the Town of Lexington or a 9.5% expansion of the total commercial space in the community. Accordingly, a 9.5% expansion of public safety costs will generate approximately $337,000 per year of additional public safety based on the estimated service cost of $3,549,000 for all commercial uses and associated traffic management. In terms of public safety personnel the cost value I am assigning to projected service cost can be equated to four to five new public safety full time positions.

1. Lexington Master Plan 2002 records 3.8 million square feet.

Based on my experience with fiscal impact analyses in Eastern Massachusetts I believe the above noted service cost estimate is conservative and represents the high end of the service cost range for the proposal in question. Application of general models for service cost tends not to fully take into account the particulars of the site. In this instance, the excellent highway access and essentially established nature of the site and community are undervalued. However, to provide the Town of Lexington with a fiscally cautious service cost estimate I have used the estimated cost estimate above in this cost to revenue analysis.

5.0 Revenue Generation and Net Fiscal Impact

In terms of the revenue estimate, based on my discussions with the Town's commercial assessor, I am applying an estimated assessed value per square foot of $225 assuming that the majority of the new space will be used for laboratory and research space (Please note this is my estimate based on discussions but in no manner does it represent an official Town position). Accordingly, the proposed 380,000 square foot addition to the LTP facilities will generate an additional assessed value of approximately $85,500,000 at project stabilization. ***Given the current $25.27 per $1,000 commercial tax rate, the LTP proposal will generate approximately $2,161,000 in annual property taxes at project stabilization.***

The proposal will not likely generate personal property taxes since my assumption is that the primarily laboratory and research equipment will most likely be exempt from local personal property taxes. However, the proposal to build 789 structured parking spaces will generate additional tax value at approximately $500 per space. Therefore, the 789 car facility would have an additional annual tax value of approximately $394,000 and bring the total annual revenue stream to approximately$2,555,000 at project stabilization.

Table 2. Estimated Net Fiscal Impact

LTP Proposal	Estimated Annual Revenue	Estimated Annual Service Cost	Estimated Net Fiscal Benefit	Cost to Revenue Ratio
380,000 sf. expansion Parking garages accommodating 789 cars.	$2,555,000	$337,000	**$2,218,000**	**0.13**

As shown in Table 2, the LTP proposal will generate a net annual fiscal benefit of approximately $2,218,000 (current dollars). The proposal has a cost to revenue ratio of 0.13 meaning that for every dollar of revenue received it will cost the Town of Lexington approximately 13 cents to provide municipal services. The remaining 87 cents of every

revenue dollar is net revenue that can be applied to a variety of municipal purposes. It has been my experience over the past 15 years that a projected cost to revenue ratio may vary from 1% to 10 % (positive or negative directions) from year to year depending on background economic conditions. In this instance the strongly positive cost to revenue ratio (0.13) clearly indicates that the strong positive fiscal profile will be sustainable for the long term and that the proposal will always be an important net fiscal generator for the Town of Lexington.

6.0 Building and Construction Fees

The building and associated permit fees are estimated at approximately $15/$1,000 of construction value and will be paid as the proposal is built in stages consistent with market demand. I estimate that construction value will be between $75,000,000 and $100,000,000 accordingly anticipate construction fees of up to $1,500,000 during the period of project build-out.. The total building and construction fees will cover any municipal costs associated with the building department overview and management for this expansion of the Lexington Technology Park.

7.0 New Growth Revenues

In Massachusetts, new growth (the initial taxable year of new development) is not calculated as part of total assessed valuation and therefore is not subject to the 2.5 % tax levy limit. Therefore, taxes generated by new development can be applied directly to local revenue base for the initial year of operation, as new growth revenue. This feature of the Massachusetts taxation regulations provides additional, albeit, a short term fiscal benefit to a community.

In this instance the proposal (new buildings and parking garage) will generate approximately $100,000,000 million dollars in new growth assessed value.

8.0 Concluding Comments

Similar to all high value commercial development in Lexington's Route 2 corridor the strong positive fiscal profile is a direct function of the strong taxable value associated with laboratory and research space in suburban Boston and the region in general, coupled with the relatively low municipal impact associated with an essentially self contained research park immediately adjacent to Rt. I 95 and Rt. 2 interchange. The magnitude of the positive cost to revenue ratio (0.13) strongly indicates that the net positive profile of the proposal will be sustainable in the long term.

While difficult to quantify at this juncture the proposed expansion will likely generate more nearby employment opportunities for Lexington residents which in turn can only solidify the value of the Town's residential tax base.

Appendix 1

The following data was derived from Exhibit 6-4 Typical Impact of Commercial Uses on Various Public Service Categories: Fiscal Impact Handbook Burchell and Listokin, Chapter 6 Proportional Valuation Fiscal Impact Method.

Service Category	Percent Range	Mid-Point, %
General Government	4 to 6	6
Public Safety	35 to 90	75
Public Works	10 to 20	15
Health and Welfare	1 to 3	2
Recreation and Culture	1 to 3	2

In the report, the general Public Safety category was divided into two categories; police, fire services. It is important to note that in the above referenced handbook commercial development is divided into two major categories with retail uses generating as much as three times the cost per square foot as office / research use. The upper end of the range is essentially designed to model the impact of large retail shopping centers and the low end the non retail activities. Given the non retail nature of the proposal and the fact that it is essentially an addition to an existing commercial area we applied the low end of the estimated service range i.e. 35%. Even at this level, it is likely that the above model overestimates the annual service cost since it cannot take into account private security personnel, modern fire suppression and monitoring systems, and most importantly the established nature of the project area. Further, all required bi annual safety inspections are covered in full or in part by inspection fees and not reflected in the model.

As noted in the Fiscal Impact Handbook, "the analyst must temper his distribution of aggregate municipal costs with the kinds of services provided locally. He must also take into account the potential assumption of typically public services by the private facility"

In the instance of the LTP proposal, its location along a major highway, its location within an existing and established research park; its relative location to an abutting research park; and the fact that it does not create a new police or fire service zone, along with the fact that office /research uses generate considerably less service cost than retail centers are the reasons for applying the lower end of the cost scale to the LTP proposal.

About the Author

John W. Connery
Connery Associates
Principal

Education: Master of City Planning
Ohio State University 1971

Bachelor of Arts
Boston University 1969

Experience:
Mr. Connery has 38 years of community planning experience. He has worked in the Mid West and for the past 36 years in New England. As founding principal of Connery Associates in 1980, he has had over 250 municipal and private clients. Mr. Connery has developed an expertise in municipal zoning, fiscal impact analysis, and project permitting. His professional assignments have included numerous downtown redevelopment projects, community master plans, zoning studies, and cost of development / fiscal impact studies.

Working with Goody Clancy and Associates in 2001 he completed and had adopted the Zoning Plan for Eastern Cambridge with the associated fiscal impact analysis. Mr. Connery's current private sector projects include various residential and commercial fiscal impact studies in Massachusetts including the Mashpee Commons, the Natick Collection in Natick, expansion of the South Shore Mall in Burlington, and life style shopping centers in Dedham, Lynnfield, Burlington, and Westwood Massachusetts. Further, Mr. Connery has also recently prepared fiscal analyses for senior living facilities in Lynnfield, Braintree, Sharon and Dedham Massachusetts. He has also prepared numerous fiscal impact studies for various market rate residential developments, 40B developments, and three 40R developments throughout the Commonwealth; and he is currently preparing comprehensive zoning amendments and fiscal studies for Woburn, Melrose, Wareham and Burlington Massachusetts.

With Judi Barrett (principal author) of Community Opportunities Group he has assisted in the development of a 42 community case study regarding the relationship of school aged children and multi-family housing and the resulting fiscal impacts. Mr. Connery has also taught one-semester courses in urban planning at the University of Massachusetts at Boston and at Boston University, and has been a guest lecturer at both Harvard and Tufts University Graduate School on a number of occasions. He has been employed as an expert land use and zoning witness before the Land Court, Housing Appeals Committee and Superior Court for both public and private clients. He is a past president of the Massachusetts Consulting Planners Association and an active non-professional member of the American Institute of Archaeologists.

Telephone 781 665 8130 E- mail johnconnery@comcast.net